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UNCLAS SECTION 01 OF 02 LAGOS 000707

SIPDIS

SENSITIVE BUT UNCLASSIFIED

PARIS FOR OECD/IEA
TASHKENT FOR BURKHALTER

E.O. 12958: N/A
TAGS: EPET ENRG EFIN ECON EINV PINS NI
SUBJECT: TFIZ01: WAITING FOR A SIGN: NIGERIA OIL EXECS SAY THEY ARE NOT READY TO RETURN TO THE DELTA

REFS: A: Lagos 624
B: Lagos 568
C: Lagos 677
D: Lagos 575
E: Lagos 499

¶1. (SBU) Summary: In the informal setting of a monthly luncheon, oil company executives today talked about the crisis in the Niger River delta (refs A and B), and indicated the industry is in no hurry to return evacuated employees to the swamps. They consider the loss of revenue from the closed facilities minimal in comparison to the risk to staff safety and property security that may yet occur if they restart operations. They also note that Nigeria's refineries are mostly closed, and the country now imports 100 percent of the fuel it consumes, with no end in sight to the fuel shortage. End Summary.

No Hurry to Get Back in the Swamps

¶2. (SBU) On April 3, ConGen attended the monthly Lagos American Business Luncheon. The luncheon is a venue for the managing directors of American businesses, mostly from the oil sector, to meet informally and discuss issues of mutual concern. Today's topic of discussion naturally gravitated toward the situation in the Delta. The oil executives present said that companies are probably losing only five to six percent of an estimated total loss of $25 million per day of production income. They arrive at this percentage by deducting from total revenues the 60 percent share taken by their joint venture partner, the Nigerian National Petroleum Corporation (NNPC), as well as taxes and other fees and associated costs. According to these executives, the companies have little incentive -- monetary or otherwise -- to resume production before safety concerns are addressed. None would speculate whether production would resume before the election. Chevron-Texaco and Shell Oil representatives have previously stated that, before they return staff to facilities in the Warri and Escravos area, the companies will need specific assurances from the government and local population that peace will be maintained and that the oil firms' workers will be safe (ref C).

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Nothing More to Give: Crude Capacity at Outer Limits
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¶3. (SBU) The executives also said the GON has asked all companies to produce as much crude as possible in May, June and July. However, the company executives report that even when full production resumes, there is no extra capacity in the system to produce much more than the approximately 2.2 million barrels per day (bpd) that was pumped before the outbreak of violence in the delta. This confirms a conversation Econoff had with a major oil producer representative on March 31, who said the GON may publicly report that there is excess capacity in crude oil production that may be tapped in the future, but in reality, the companies have little capacity beyond the production allocation levels established for each of them. The company representatives stated that there is no cost-incentive to build-out beyond the allocation level. Post previously reported that Nigeria's crude oil output is

at maximum capacity (ref D).

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Not from Around Here: Nigeria Now Imports all its Fuel
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¶4. (SBU) The executives reported that all of the petroleum products currently consumed in Nigeria are bought on the international market. These imports are arriving at a slower rate than the berths can handle. It was reported that Mobil's tanks run dry every two to three days waiting for shipments.

¶5. (SBU) It was said that northern Nigeria's supply of oil for refinery production and its supply of imported fuel comes through Chevron's pipelines originating in Escravos (ref C). Thus, surmised the executives, as long as Chevron's production is shut down, long gas queues throughout the country but particularly in the north will continue. The refineries in Warri and Kaduna are completely down and technical problems are preventing the refinery in Port Harcourt from upgrading the product it has available.

¶6. (U) Fuel lines were also the subject of discussion at the Lagos Business School monthly breakfast on April ¶1. John Pototsky, managing director of Mobil's downstream operations, reported that Nigeria's fuel shortage was due to fuel sellers failing to fulfill their contracts (ref E). However, Chief Rasheed Gbadamosi, Chairman of the Petroleum Products Pricing Regulatory Committee (PPPRC), blamed the fuel shortage on a combination of factors namely, rejected cargo that did not meet Nigerian specifications, the United States' purchase of available supplies when the price first jumped, and consumer panic-buying. Pototsky echoed the fact that some consumer panic-buying is occurring, as demand for finished petroleum products rose from 21 million liters per day to 32 million over the course of recent weeks.

¶7. (SBU) Comment: Pototsky also reiterated Post's previous analyses, that unless fundamental change is brought to the downstream sector, Nigeria will continue to experience fuel shortages (ref C and E). He identified the necessary fixes as refinery repair and maintenance, pipeline repairs, and market pricing for gasoline sales. These issues will remain acute in the two weeks leading up to the nationwide elections. If oil does not flow from the Delta soon, Nigeria will continue to lose much needed revenue as well as crude for its under-capacity refineries. Gasoline queues will persist and perhaps increase; all of which will raise the already high tension levels in many communities throughout the country. End Comment.

HINSON-JONES